

Dollar down on weak US markets, Aussie sinks after low inflation
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The US dollar weakened against the euro and yen today, undermined by a decline in US equity prices and Treasury yields and finding little support from a slower-than-expected expansion in the US manufacturing sector.

"As (US) equities underperform, this leads to buying of Treasuries and yields fall. The dollar is softer as a result because it is reflecting other markets rather than internal components," said Sebastian Galy, senior currency strategist at Societe Generale in New York.

A smaller-than-expected increase in Australian first-quarter consumer inflation spurred Aussie dollar losses of more than 1% versus the greenback as the data diminished chances the Reserve Bank of Australia will raise interest rates this year.

The Australian dollar extended its losses in early US trade, touching a low of US\$0.9268 and pulling further away from a five-month high of US\$0.9461 set earlier in April.

Australia's growth prospects, at the heart of the central bank's efforts to talk the currency down last year, have improved, while concerns over China have settled somewhat. That was underscored by a weak China PMI survey today that was in line with forecasts.

The US dollar's value against a basket of currencies fell 0.11%, touching a weekly low.

US manufacturing activity expanded in April, but the rate of growth was slower than expected as inventories fell. Sales of US single-family homes in March were the lowest since July of last year, falling more than expected.

In Europe, April manufacturing activity increased more than expected to a near three-year high.

The euro however remains hamstrung by consistently low inflation and investors are wary of the possibility of more monetary stimulus from the European Central Bank (ECB).

The euro rose 0.23% to US\$1.3835, and climbed 0.48% to 82.41 pence against the British pound. Sterling fell 0.22% to US\$1.6783.

Sterling fell after Bank of England meeting minutes highlighted a growing debate between policymakers about slack in the economy and the medium-term inflation outlook.

The dollar fell 0.26% to 102.32 yen, while the euro slipped 0.04% to 141.52 yen.

"We think the ECB believe that the current low inflation is temporary and that it will pick up along with growth," said Kenneth Dickson, investment director with Standard Life Investments in Edinburgh.

"They do not believe that Europe is heading for the sort of deflationary cycle that Japan saw."

Still, ECB policymakers are talking about the dangers of any further gains for the euro. Its president, Mario Draghi, has made clear the euro's strength is a possible trigger for the bank to ease monetary policy. He is scheduled to give a speech in Amsterdam tomorrow. – Reuters, April 23, 2014.

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